

# The Fourth Branch of Government

**Eric Kriss**

Secretary, Administration and Finance  
Worcester Regional Research Bureau – Forum on City Finances  
February 27, 2004

What better place to start this morning, in this venerable city filled with relics of the American Revolution, than with Adam Smith. His famous 1776 *Inquiry into the Nature and Causes of the Wealth of Nations* outlined the philosophical framework for our commercial society.

Smith's key insight was that a division of labor – each contributing one's part to a larger whole – propelled economies forward provided that open exchange occurred in a market free of monopolies. He specifically warned:

The price of monopoly is upon every occasion the highest which can be got.

While the language now seems quaint, Adam Smith's insight remains the foundation of capitalism. Unfortunately we have strayed from his wisdom, for we have created, at the very heart of our public life, a monopoly so powerful that it should rightly be called the fourth branch of government.

I refer to public employee unions.

A little historical perspective is helpful. For the first 173 years of our constitutional democracy, government employees (referred to as public servants back then) remained non-union despite the fact that trade unions had become a familiar part of the American labor scene by the early 1900s. In 1962, President Kennedy issued Executive Order 10988 that allowed federal employees to join unions and collectively bargain for the first time.

Although Kennedy's Executive Order did not extend to the state and local level, a rush of new laws rapidly followed suit. In 1973, the Massachusetts legislature enacted Chapter 150E expanding union membership to all state and local government employment. Thirty years later, 90% of all Massachusetts public employees are unionized, including the entire executive branch, our schools, our courts, and even the University of Massachusetts economics department. The only non-union island remains the staff of the state legislature.

Since President Kennedy's time, employment conditions have evolved, and private trade unions, once dominant, now represent less than 1 worker out of every ten. But in the public sector, unions hold special monopoly status. It's the law.

My question for all of you is: what have we wrought? Have we created inherent conflicts of interest at the very core of our public institutions? Or has the introduction of a union monopoly aided the civic excellence we all desire?

Let me outline the monopoly mechanism let loose upon the public sector.

Step one: workers pay mandatory union dues; this is essentially a pass-through from taxpayers to the union via public employees.

Step two: unions fund those candidates who strongly back their special interests, and then encourage public employees to attend their political events. Unions dominate 16 of the top 20 Political Action Committees, according to the Office for Campaign and Political Finance. Given the lack of an organized counterweight, union backing overwhelms local school board and city council elections. These contests then act as a springboard for statewide races.

Step three: union-backed legislators enact laws that differentially benefit unions. And the cycle goes on and on.

The clearest example of the impact of this monopoly over time is the permanent wage differential between public and private employees; it's 12% in Eastern Massachusetts according to the Bureau of Labor Statistics, before adjusting for the value of generous public employee benefit packages. Previously, I have characterized this premium as a hidden tax, and I stand by that assessment. Opposition to a labor monopoly is not anti-union, just as opposition to a business monopoly is not anti-business.

But the union monopoly does not just impact state and municipal employment. Public sector unions influence public policy at every level. For example, public construction – roads, schools, libraries – must follow union-backed rules that dramatically raise costs even when private contractors do the actual work. Our administration estimates that the construction premium is 20%, perhaps more.

I repeat Adam Smith: The price of monopoly is upon every occasion the highest which can be got.

Some will argue that this monopoly premium is not such a heavy burden to bear, and that unions provide insulation from what otherwise would be rampant cronyism and political favoritism. This is a specious argument. Evolving employment law provides ample protection against wrongful dismissal, retribution and other abuses.

Today, the hidden union tax is so high that many municipalities may well collapse under the strain.

A casual look suggests that Worcester public schools should be in stable, perhaps even excellent, fiscal health. In spite of a decline in student enrollment, Worcester's Chapter 70 aid increases by \$2.2 million in the Governor's 2005 budget proposal. On a per pupil basis, Chapter 70 aid goes up 3%, slightly more than the forecast rate of inflation.

Since the Education Reform Act of 1993, Worcester's Chapter 70 school aid has risen dramatically, and has *never* been cut in any year (even in the face of large declines in state tax receipts).

In addition to generous state aid, Worcester enjoys a steady real estate tax base. Schools will get \$2.7 million more – over 4% -- in local support, comfortably in line with a projected 4.6% growth in property tax receipts (comprised of 2-1/2% from existing properties, plus 2% from new development).

Thus, Worcester schools will likely see an increase of about \$6.5 million in 2005. And yet we read press stories about a looming multi-million dollar school deficit. What's wrong with this picture?

Basically, the problem is escalating wages and unbalanced benefits, all subject to collective bargaining under the union monopoly.

In the private sector, employees typically pay around 25% of total benefit costs. Worcester city workers and teachers pay less than half that. If Worcester moved to the 25% share now in effect for new state employees, the city would save up to \$9 million annually (I'm basing this estimate on the Research Bureau's excellent fall report).

Public sector contracts contain automatic escalators, and in Worcester's case this is between 1.5% and 2%. Any negotiated increase comes on top of this automatic raise. Thus a 4% contract is really a 6% increase. Only monopoly power can achieve this year after year; such unsustainable growth takes its toll and eventually something has to give.

Automatic pay hikes cost jobs. Your school Superintendent Caradonio spelled it out in January: here in Worcester, each 1% step in negotiated raises equates to a cut of 28 school positions.

I repeat Adam Smith: The price of monopoly is upon every occasion the highest which can be got.

Am I saying that teacher salaries are too high? Not at all – the best teachers are underpaid. Unfortunately, we cannot remove overpaid poor teachers because the union monopoly does not permit it.

This is a key point of the Governor's Task Force on Underperforming Schools, which issued its report this week. This bipartisan commission was chaired by Boston Foundation President Paul Grogan and included the House and Senate Chairs of the Legislature's Education Committee, Mark Roosevelt, co-author of the Commonwealth's 1993 Education Reform Act, and Boston School Superintendent Tom Payzant. Among their recommendations:

- remove administrators from the union
- allow superintendents to reconstitute underperforming schools
- let principals fire bad teachers and hire good ones to get the job done.

The Governor filed legislation in support of these recommendations on Wednesday.

I'd like to now turn to a more hopeful example: the new Worcester courthouse illustrates what can be achieved when union influence is counter-balanced with the public interest. Under special legislation allowing for a more rational construction process, we will save money, break ground on time this July, and help boost Worcester's local economy. Moreover, the planning for this court was a collaborative effort of all three legitimate branches of government: this administration, your legislative delegation, and court chief justices, plus local officials.

More courthouses are in the pipeline. With construction reform, we can move immediately ahead on a Plymouth court. But if union influence holds, this courthouse will be delayed, as will others in Salem, Taunton, and other Commonwealth communities.

We have experimented with a fourth branch of government, and it is a dangerous failure. It's time to reverse course. But we need your voice.

This monopoly was granted by the legislature in 1973. What the legislature giveth, the legislature can taketh away. But they will never do so without hearing a strong outcry to return to the three branches of government envisioned by our founding fathers.